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ASSEMBLY REVENUE AND TAXATION 'SUBCOMMITTEE ON PUBLIC INDEBTEDNESS .

S. C. Masterson, Chairman Carl Britschgi Leverette House Herbert R. Klocksiem Alan Pattee

Mary Virginia Galli, Committee Secretary

LEGISLATIVE REFERENCE SERVICE

#### ASSEMBLY REVENUE AND TAXATION SUBCOMMITTEE

ON

#### PUBLIC INDEBTEDNESS

#### S. C. Masterson, Chairman

Hearing of the Assembly Revenue and Taxation Subcommittee on Public Indebtedness on May 23, 1958, at 10 a.m., in the Council Chamber of the Richmond City Hall, Civic Center, 26th and Macdonald, Richmond, California

## S. C. Masterson, Chairman

#### MEMBERS PRESENT:

S. C. Masterson Carl Britschgi Leverette House Herbert R. Klocksiem

#### MEMBERS ABSENT:

Alan Pattee

#### STAFF MEMBERS PRESENT:

Mary Virginia Galli, Committee Secretary

### OTHERS PRESENT AND/OR PRESENTING TESTIMONY:

Robert T. Anderson, Administrative Officer of Riverside County

Richard Carpenter, Executive Director, League of California

Alan M. Firestone, Chief Deputy City Attorney, City of San Diego - representing the California Municipal Utility Association

Joseph Genser, Attorney for the California State Federation of Teachers, AFL-CIO

Richard Graves, 3294 Springhill Road, Lafayette, California A. O. Lefors, Director, State Activities of the California Taxpayers' Association

Thomas M. Montgomery, County Counsel, Humbolt County

Les A. Parker, Los Angeles Building and Construction Trades Council

Desmond M. Teeter, County Administrator, Contra Costa County Walter H. Vaughan, Finance Director, City of Santa Rosa

#### MEETING RECORDED BY:

Fred J. Galli, Sergeant-at-Arms

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# APPENDIX

MONTGOMERY, Thomas M.

...A Hearing of the Assembly Interim Committee on Revenue and Taxation, Subcommittee on Public Indebtedness, was convened at 10 a.m., Friday, May 23, 1958, in the Council Chamber of the Richmond City Hall, Civic Center, 26th and Macdonald, Richmond, California, Assemblyman S. C. Masterson, Chairman, presiding...

CHAIRMAN MASTERSON: This is the Assembly Revenue and Taxation Subcommittee on Public Indebtedness, meeting at the Richmond City Hall, May 23, 1958.

At my right is Assemblyman Carl Britschgi from Redwood City, and on my far left over here is Assemblyman Leverette House from Brawley, Imperial County. I'm advised that Assemblyman Herbert Klocksiem from Long Beach is coming in by plane; that his plane hasn't arrived as yet, and Assemblyman Pattee will not be here. Mary Virginia Galli is the Committee Secretary and Fred Galli is the Sergeant-at-Arms recording the proceedings here today.

The Committee welcomes everyone here to testify and enjoy our proceedings.

This is a subcommittee which has been directed by the Assembly to investigate the subject matter of Assembly Constitutional Amendment 46, which was introduced at the 1957 Session of the Legislature. I believe that each witness has been distributed a copy of the proposed amendment as it has been re-amended to

date, as a result of discussions and inquiries that we have previously held. I might state the background of this measure arose out of the fact that at the present time the Constitution of California regulates the incurring of long-term indebtedness by cities, counties and school districts. However, there are a number of other districts in the State which are not regulated by Article XI, Section 18 of the Constitution, and these other districts incur long-term indebtedness also. It seems strange that limitation should be put only on what might be termed the strongest of our public agencies and that such limitations did not apply to financially weaker units of our government.

Also through the years, we've had develop in California a number of theories by the courts as to just what is and is not within the restrictions of the Constitution, and means have been devised to avoid the consequences of the limitations; for example, such means as so-called lease-purchase arrangements. It's true that the school districts are by statute restricted in reference to lease-purchase and a vote is required for lease-purchase arrangements by school districts.

We have previously had hearings throughout the State; one hearing at Fresno and one in Los Angeles, at which time testimony was presented. Among those testifying were various taxpayers' groups, some of whom objected to any change in the provisions in respect to the requirement of a vote and as to the majority that might be required. As you know, the present requirement as to cities, counties and school districts is a two-thirds vote in order to incur a bonded indebtedness. The proposed

amendment suggests that this be reduced to 60%. And quite frankly, I believe the Committee has made this suggestion as a means of compromise. We are proposing to include more districts within the restrictions and we are proposing to include more types of indebtedness within the restrictions requiring a vote. Government being quite often a matter of compromise - to obtain the support of those who might otherwise oppose such a change - we have countered with a compromise suggestion that the vote required be reduced from two-thirds to three-fifths in order to secure the approval of the voters for the incurring of any of these types of long-term indebtedness.

The matter of revenue bonds was first within the amendment as suggested at the 1957 Session of the Legislature, but as a result of testimony that's been previously taken, the consensus is that it is not necessary to include revenue bonds within such restrictions because the act creating the district to be authorized, does itself require a vote of the people. The people contemplate that these particular revenue bonds will be issued and if the project is not financially feasible then the bonds won't sell anyway, so there should be no special need for a further vote for the incurring of those revenue bonds.

We have proposed holding at least two more meetings throughout the State so that we can get witnesses from all areas to give their views upon this matter. We propose to hold meetings in the future in San Diego and in Los Angeles. I wonder if either of the other members of the Committee who are present here at this moment would care to comment?

Assemblyman House?

ASSEMBLYMAN HOUSE: Well, Mr. Chairman, all I'd like to say is that I think you have stated the case very well and have given us all a complete and correct review of the history of ACA 46 up to date. I think that it has been very well covered.

CHAIRMAN MASTERSON: Thank you. Assemblyman Britschgi?

ASSEMBLYMAN BRITSCHGI: Mr. Chairman I would say this to the Committee that having missed the other two meetings, I am going to be an interested listener this morning. I was very interested in your remarks and I am certainly going to be concerned with the effect it would have on the cities in the State of California because I happen to be an old-time city man, you might say, and I want to take a good look at that angle. I will be very interested in hearing the comments from the various witnesses. I see that Bud Carpenter is here and I hope we have an opportunity to hear him this morning or sometime during the day.

CHAIRMAN MASTERSON: Thank you.

Before we call our first witness, I would like to read into the record a letter which was received from Riverside, written by Robert T. Anderson, the Administrative Officer of Riverside County. It is addressed to me as Chairman:

"We have received a letter that you are proposing to hold a Subcommittee meeting on Public Indebtedness in the Council Chamber of the Richmond City Hall on May 23rd.

"It will be impossible for us to attend the meeting on May 23rd, but we would like to call to the attention of the Assembly Subcommittee that Riverside County is very much in favor of reducing the requirement for the passage of a general obligation bond issue from the present 66 2/3% to 60% as proposed by ACA 46. Riverside County is extremely interested in this subject because in June, 1956, the people of Riverside County voted on a bond issue for general government buildings with a voting percentage of at least 61%. However, as you are well aware, this is insufficient to pass a general obligation bond issue.

"We are in receipt of your Progress Report dated January, 1958 and have found it very very helpful and illuminating. We would like to call to the attention of the Subcommittee a portion of the testimony on page 13 wherein Don Davis, General Partner in the firm of Stone and Youngberg, is quoted as giving the reason for the original requirement in the State Constitution of 1850 for the 2/3 vote. I believe it is reasonable for all of us to assume that there was much merit at that time in requiring the 2/3 vote because there was a great deal of non-resident ownership of property in the State of California. However, in most of our situations today, where cities, counties and school districts are faced with

expansion of their public buildings and wish to take advantage of the desirable features of low interest general obligation bond issues, they are for all practical purposes prevented from doing so because of the high vote requirement.

"We, in Riverside County, are being forced to raise the property tax rate 14¢ each year to attempt to solve our immediate space problems over a short period of time when the facilities will be used over a very long period of time and should more appropriately be paid by all of us as we use them. If we had had a 60% requirement in June, 1956, instead of a 66 2/3% requirement, the property tax rate in this County would be at least 10¢ less than it is today.

"The present requirement for the passing of general obligation bond issues has forced a higher tax rate on the people of California in their county government. It is amazing to me that the public utilities and other large property owners cannot see this development. The United States Government can float a bond issue on the vote of its elected representatives without referring it to either the State Legislators or the people. The State of California can pass a general obligation bond issue by a simple majority of the voters of the State. Special districts can finance public building projects through the use of a five year installment contract, which procedure would be extremely helpful to county and city governments. However, we are not asking for that privilege and we recognize that we can use the lease-option to purchase method, but because

of its high interest cost we prefer not to use this method. We sincerely desire to use the general obligation bond issue method, but we need this Constitutional amendment to reduce the requirement necessary to pass to 60%.

"I personally can see no objection to the counties having the same opportunity that the State has in that only a simple majority of the voters is needed. However, a compromise somewhere between 50% and 66 2/3% is probably the only way we can get some improvement in the present situation.

"I would be glad to elaborate on this further, or appear before your Committee at a later date, but I would appreciate it if these remarks could be introduced into your hearings on May 23rd, and accordingly we are forwarding to you copies.... etc."

At this time I would like to call on Desmond M. Teeter, who is the County Administrator of the County of Contra Costa. Mr. Teeter.

> DESMOND M. TEETER, COUNTY ADMINISTRATOR CONTRA COSTA COUNTY MARTINEZ, CALIFORNIA

MR. DESMOND M. TEETER: I'd like to first read a short statement and then make a few brief comments.

This is entitled - COUNTY USE OF LONG TERM CREDIT

"Short term borrowing by counties in California is controlled by the Government Code, which provides for the issuance of tax anticipation warrants (Sec. 53820 to 53855 incl.), or, alternately, by loans procured on a bid basis evidenced by notes signed by certain prescribed officers. Such short term borrowing, like the ancient Chinese custom, requires that the debt be paid by the end of the year and, consequently, is not apt to lead to any difficulty.

"Long term borrowing, i.e., the procurement of a loan to be paid from the revenue of a subsequent fiscal year or over several years may not be effectuated by county officials without the prior approval of the electorate by a two-thirds vote, which is to say a vote of two to one. This same constitutional restriction applies to municipalities and school districts but not to special districts. In the legislation authorizing bond issues by special districts, the Legislature in most instances has made a two-thirds vote mandatory also. In at least two such districts, however, the required vote is a simple majority; namely, in the county fire protection districts and in the rural fire districts. One of each kind of such districts have issued bonds in Contra Costa County at effective interest rates comparable with those obtained by school districts in the same general areas and at about the same time. Our first conclusion, therefore, is that the requirement of a two-thirds vote is not of any great import to the bond buyer. If this conclusion is a proper one we must look further for justification of the requirement for a two-thirds vote.

"It has been pointed out that the constitutional requirement dates from the days in California when a great deal of the property in the State was held by absentee owners. Actually this situation has not changed greatly. There are more resident owners, of course, but great portions of the taxable wealth in most counties are held by corporations which are owned by widely scattered stockholders. Hence, if the original reason was a valid one it would appear to apply with equal force today, and the justification for change must be sought elsewhere. I think that the justification for change can be found in the vastly improved means of communication which exist today as compared with 1879. There is no reason today why any elector should be without full information on any proposed bond issue except it be because of his own apathy. With full information available to the whole electorate it would seem entirely reasonable that the required vote be reduced from two to one to three to two or 60%. This could make a great deal of difference in making long term credit available to those who are trying to manage the public's affairs in a manner which will provide needed improvements with a minimum impact on the taxpayer.

"But if it is made somewhat less difficult for various jurisdictions to obtain long term credit the Legislature should; I think, provide concurrently for certain additional restrictions in other aspects of borrowing. The economists have long told us that we virtually rebuild our country every thirty years. Over

the centuries our forebears have demonstrated that buildings can be constructed which will last for centuries. But there is hardly a 50-year old building in use today which is not obsolete unless large sums have been spent on its modernization. We should not be so fatuous as to believe that what we do today is not subject to equally rapid obsolescence. Recognizing that this is so should lead us, I believe, to restrict the term of our bond issues, or at least those for buildings, to not more than thirty years, or preferably 20 or 25 years. Reduction from 40 to 25 years has been accomplished by the Legislature in recent years for school districts. It would seem advisable to also shorten the permissible term for county and city issues for buildings in order to prevent for the future such situations as we find frequently today, that is, a jurisdiction still paying off a debt incurred to construct a building which is no longer useful or even, in some cases, out of existence.

"Another area of legislative control on borrowing is in the amount of debt in relation to the wealth of the jurisdiction doing the borrowing. In most cases the Legislature has limited the amount to 5% of assessed valuation but has made it a higher proportion in some instances. The overlapping of debt in the case of property which is within many taxing jurisdictions sometimes results in inordinately heavy levies on particular properties for debt servicing. The potential results may be well illustrated by the case of property within the City of Walnut Creek in Contra Costa County. Some such property is

subject to bond taxes by jurisdictions with the following bond limits.

"Now these don't apply to all of Walnut Creek but certain portions of Walnut Creek: Contra Costa with a County limit of 5%, the City with a 15% limit; the East Bay Utility with no limit; the Central Contra Costa Sanitary with 15% the High School District with 5%; the School District with 5; the Fire Protection District with no limit; the hospital district with 10%; the Transit District, no limit; the Junior College District 5%; Flood District, no limit.

"Now if we substitute 10% for each of those four no-limit districts, we would have 100% combined limit on the assessed valuation; or assuming that we are assessing 25 or 27%, a debt against the property of somewhere in the neighborhood of 25% of its market value.

"The county, the city, the sanitary district and the flood control district are limited to 40-year terms; the utility and transit districts to 50-year; the fire protection district to 30-year; the school districts to 25-year; and the hospital district to 20-year. For the purposes to be served the utility and transit district terms may be justified, though there may well be doubts about the latter. For the purpose for which counties and cities borrow the 40-year term seems excessive. An effort to control the over-all total for so many districts and separate entities would be confronted with what seems to

this writer insuperable difficulties, and I think that we must rely on the good judgment of the people themselves for the avoidance of piling up their overlapping debt to anything like the possible total fixed in the statutes.

"Anyone who has joined in a campaign to sell the electorate on a county bond issue knows with what a jaundiced eye the voters look at such a proposal. The evidence of need presented during the campaign must be overwhelming in order to win a two to one majority. Those who carry the campaign must do so with private resources and their own time since no other means of doing the job is available. In addition to the costs imposed in this manner on private citizens there is not infrequently additional expense on the public treasury in connection with the election, legal costs, etc. When a relatively modest amount of building space is required it is, therefore, often in the interest of good management to lease instead of attempting to arrange for the cost to be financed by a bond issue. If in addition to procuring space for the term of the lease, an arrangement can be made under which the jurisdiction has the building constructed under its own plans providing for the most efficient use of the space and can include an option to purchase at the end of the lease, the saving in time and in administrative expense often offsets the additional costs over bond financing. During the past decade this procedure has enabled management in many jurisdictions to provide needed facilities which would have been otherwise unavailable at a loss which

most officials involved will agree would have been substantial."

Now I realize that in taking this stand in favor of the sixty percent in place of the 66 2/3 percent vote, I am going contrary to the decision of the Supervisors' Association of the State.

I am familiar with the situation in Riverside which was covered by Mr. Anderson's letter. I know at his suggestion the Supervisors' Association is studying the possibility of substituting for a flat percentage a sliding scale under which it would take an increasingly large vote as an indebtedness of a jurisdiction went up; in other words, scaling it. I believe they are working on the theory that between 60 and 66 2/3 percent might be acceptable. So that a jurisdiction without debt might pass a bond issue by a 60 percent vote but if it were approaching its maximum it would require a heavier vote.

In this county we have a particular situation which we were planning on solving through the lease-purchase plan. We have a county library which is supported by all of the property in the county outside of the City of Richmond. Obviously we can't float a county-wide bond issue to construct library buildings. We can't float an issue covering only part of the county. We have adopted the policy - did so when the 10¢ library tax limit was in existence - the policy of requiring the community to furnish its library building - the facilities with the county furnishing the books and the trained personnel.

Now there are a number of areas in the county which have indicated by representation from a majority of the people that they would like for us to make use of the county service area in order to tax them to pay for the costs, over a period of time, of a local library building. These service areas have no bonding power but they could raise money from year to year to pay on leases. Some of our municipalities have built and are building their own libraries. These unincorporated areas, thickly populated however, have the problem of raising the money and the most equitable way they think to do it is through taxation. One jurisdiction, Orinda, has raised \$117,000 for the purpose by private subscription. That's the only community in the county however, that has been willing to undertake the job in that way, and three others are now asking us to provide their buildings in the way I have just spoken of through lease-purchase.

We hope that this means of doing it remains available to county management. Now I know that the system costs more. We have borrowed about a million and a half from our County Retirement Fund for this purpose. The first time was to put up an administration building in the City of Martinez which cost \$698,479.66 and the interest accumulation over the 20-year period of the lease - the charges to give the Retirement Fund a return of  $3\frac{1}{2}\%$ , as required by law, over the 20-year period - would amount to \$273,702. The principal amount by the payments as they have been applied has been reduced to \$587,900 and we still face interest costs of \$177,600. If we strip the

\$587,000 down to a \$585,000 balance and the people would authorize us to issue bonds in November, providing the municipal rates which have been coming down steadily, have reached a point of 2.75 at that time, the difference between the remaining interest of  $3\frac{1}{2}\%$  for fifteen years and interest under a bond issue at two and three quarters percent would be \$48,000. However, had we not put up this building at the time that we did by the means available to us, I'm sure that our administrative expense would have been much greater than the difference between this bond financing and financing in the way that we undertook it. That is all I have Mr. Chairman.

CHAIRMAN MASTERSON: Any questions from members of the Committee?

ASSEMBLYMAN HOUSE: Mr. Chairman -

CHAIRMAN MASTERSON: Assemblyman House?

ASSEMBLYMAN HOUSE: Mr. Teeter I would like to have you elaborate a little more on this idea of the sliding scale proposition that you mentioned.

MR. TEETER: Well, I don't know a great deal about it myself. The Supervisers' Association has a committee studying it. How they plan to work it out, I don't know, I'm not on the committee.

ASSEMBLYMAN HOUSE: I see. That seems like a new thought to me and I'm very interested.

CHAIRMAN MASTERSON: Mr. Teeter, I understand we proposed lease-purchase at one time in respect to the county building here in Richmond and then, and I think it's considerably due to your efforts, we put a bond issue back on the ballot and finally raised the money to build with general obligation bonds.

MR. TEETER: At the time we were planning this Richmond building, I visited several insurance companies in San Francisco. I found two of them willing to do that kind of financing although to them it was a new idea. This was in 1953, I believe, 52 or 53. We were not happy with that sort of a proposal because we didn't know just how we could assure the public that the cost that we were going to be charged for that building over the years and the interest we would be paying, was the best obtainable, because it would be a matter of direct negotiation of the lease. There has since been developed a procedure under which the jurisdiction prepares the plans and then calls for bids on the construction of the building on their own property together with the charges that would be made over the years as lease until we reached a point in time when they would sell us the building for \$1.00. That makes it competitive and a number of agencies have become interested in doing that sort of building, that sort of building and financing.

CHAIRMAN MASTERSON: And I also understand from your testimony, Mr. Teeter, it is your belief that if we were to reduce the percentage from 66 2/3 to 60% that this would enable and encourage cities and counties to make use of the more reasonable interest rates of general obligation bond financing, is that correct?

MR. TEETER: That's right. I believe that - it has so frequently happened - we had one issue that didn't quite reach 60%, but I know in many counties there has been 50% more voting for an issue than voted against it, where they would have passed a bond issue - if it hadn't had to be 100% more voting for it than against it.

CHAIRMAN MASTERSON: As a result then of having such a high vote requirement instead of saving taxpayers money, it often costs them additional money.

MR. TEETER: They had to resort to some expedient - they had to keep operating. Sometime it meant leasing very expensive

privately owned property and trying to adapt it to their use. That frequently results in a separation or splitting of an organization which increase your administrative cost.

CHAIRMAN MASTERSON: In other words, there are costs in addition to the higher interest rates. It results in higher taxes because of higher costs of administration under conditions where adequate facilities are unavailable because of this 2/3 vote requirement. Is that correct?

MR. TEETER: That's right.

CHAIRMAN MASTERSON: Mr. Britschgi.

ASSEMBLYMAN BRITSCHGI: Mr. Chairman, this 66 2/3 - now the 60 in my estimation brings up the very argumentive point - I have been on a lot of bond issues and I'd like to have your feeling - where do we stop on this 60 and 66 2/3 percent? I have always found in our bond elections that if we have a good saleable item, we don't have too much trouble in our areas in getting this 66 2/3 vote. And I think it is a good stopgap in most cases of a proper issue. And I think in a majority of cases the only reason why we ever lose a good bond issue is because it probably isn't sold properly to the people, or there are some gimmicks in these issues that a majority of the people or the 2/3 majority don't particularly like. And I think that this myself is a good solid figure as far as speaking for the people. Now you say you lost by one or two or three percentage votes, but let's say that you have 60% and you might

find that you are in the middle of an argument and there is two sides to a story, and you lose maybe by - you only got 58%, are you going to come back in two years or five years from now and tell us, by golly the 60% isn't right we ought to go down to 50%?

MR. TEETER: No.

ASSEMBLYMAN BRITSCHGI: I'm wondering where we are going to stop on the thing? I just hate to open the doors.

MR. TEETER: I believe on a lot of matters submitted to the electorate a bare majority is sufficient. I think on a matter of long term debt we should have something more substantial than a bare majority. But I think a two to one vote is a little bit difficult. For those people who are carrying the campaign and it always falls on the shoulders of a few because the citizen himself, the voter himself, doesn't make any effort to get out and find out about it. The message has to be carried to him. And it has to be done at the cost of private resources and private time.

ASSEMBLYMAN BRITSCHGI: Well in answer to that question we've had in the past - over in our own particular area, close by - bond issues for schools, and for various reasons they have all gone down the drain. They just weren't presented properly, they didn't have the proper things in it. Just last Tuesday we passed an eight million seven hundred and fifty thousand dollar bond issue for the Sequoia High School District

and it went over better than, I think it was about 7% vote on the thing, and it was an issue that was put up properly to the people and I think when issues are properly laid before the people, they'll buy it, but I don't like to see this thing lowered down for one particular reason. Personally, I think that's why we in the State of California are going to find we are going to be in some trouble financially. We come along with these building issues and we have beautiful buildings; then we find out we got to staff the buildings; we got to put desks in them; we are going to fill those buildings up. And you know in your own city and your county here that everytime you have an extra corner empty you are going to find somebody that's going to get a desk in there and they are going to have a secretary and they are going to have . . . .

MR. TEETER: We have never had any extra corners since

ASSEMBLYMAN BRITSCHGI: Somebody's always there to fill them up.

MR. TEETER: We were so badly overcrowded when I took this job that space problem has been one of our worst to deal with over the last 7 or 8 years.

ASSEMBLYMAN MASTERSON: I wonder if I can ask you this,
Mr. Teeter, so we can get it into the record - how long have you
been in county government in Contra Costa County?

MR. TEETER: It will be 30 years next August.

CHAIRMAN MASTERSON: You were originally the auditor?

MR. TEETER: County Auditor.

CHAIRMAN MASTERSON: And now are the County Administrator?

MR. TEETER: Yes - since 1951.

CHAIRMAN MASTERSON: Are there any other questions from members of the Committee?

Thank you Mr. Teeter.

MR. TEETER: Thank you.

CHAIRMAN MASTERSON: We are going to go out of order because a witness has indicated that he has to leave for San Francisco. At this time I want to call on Richard Graves to give his testimony to the Committee. Would you state your name for the record and the association you represent.

RICHARD GRAVES 3294 SPRINGHILL ROAD LAFAYETTE, CALIFORNIA

MR. GRAVES: Thank you, Mr. Chairman and I appreciate your courtesy in permitting me to appear out of order in order to keep another appointment.

My name is Richard Graves, I represent myself in the sense that I have a company that has done some of this lease-purchase type of thing and is engaged in some of it now, so that I am speaking as the representative of a private business which is engaged in different forms of what you are here broadly calling lease-purchase. And may I say, Mr. Chairman and members, that I do not appear here in order to defend or advocate lease-purchase. As a matter of fact, I think the comment made just a few moments ago which indicates that the only reason that this system has gotten started at all is that present constitutional provisions and their application to the cities, counties and the school districts have encouraged the use of other than orthodox methods of financing in order to get some things done. I think it might be important to put in the record the fact that I am here speaking also out of some years of contact with local government and it is that experience really that I wish to call on in what I would like to say to the Committee rather than my more recent activities.

The problem as I see it is more fundamental than the context in which your statute states it or than I have heard briefly here this morning discussed and I have read also, Mr. Chairman, all of the testimony presented to the Committee heretofore in your published reports and the points I would like to make have not been as clearly stated as I would like to try to state them.

The whole hearing seems to me to proceed under the assumption that the people have a right to vote on every form of action by their governing bodies of the local government jurisdictions which tend to incur indebtedness. And I respectfully submit that this is in itself a fallacy. If I understand the nature

and intent of our structure of government, it is supposed to be representative and it is supposed to function through the elected representatives of the people and as to almost everything else these representatives are given very broad powers to act on their own account. Including the power to tax. And incidentally in some situations including the power to tax where even the referendum will not apply. But in this one field of incurring an obligation to acquire capital facilities, we invoke the rule that only the people can decide. Now I do not believe that there is any less wisdom, or less good judgement, or less concern for the taxpayers on the part of a board of supervisors or city council, or a school board, when they adopt a budget which imposes taxes on the people, and may I point out, with respect to the counties, there is no tax-rate limit. The Board has the legal power to double the tax, but they don't. And here you do not say that in order to set a tax rate, the people must approve the tax rate by a majority vote of 60% or a two-thirds vote. The power is in the Board, as it should be. When they levy a tax, insofar as the tax is legal to the jurisdiction by an large you do not say unless it is subject to referendum that they cannot tax the people or impose a new tax on the people without having to refer to the people. And yet in order to develop and carry out a long range, well planned, carefully thought out system of capital expenditure upon which the Board of Supervisors or the City Council may have brought in outside expert talent to lay out exactly what the long term capital outlay program of the City should be and having used

expert judgement to devise it and the competent experienced judgement of the legislative body to determine what they want to do, you then say to the people, now you decide. And I submit this is an absurdity on its face. And I suggest to you that, at least from my point of view, the assumption that the only thing before this Committee is what percentage of the vote do you get of the people to do anything in this area is in itself the wrong approach, because there are some areas of expenditure for capital purposes where the legislative body should have the power to implement its own orderly plan.

There is no denial in this comment of the wisdom that is in the people, because there is great wisdom in the people when they have a way of understanding the issues. And I think the record of the people of our State on the initiative and referendum supports that conclusion, but it does not support it when it comes to a whole list of items on a bond issue. Especially when those issues are competitive as between the needs for schools; the need for a sewer system; or the need for a city hall.

Now there is no business privately that I know of that is competent which says that just anything is good enough for its administrative personnel. And we sit here in one of the remarkable exceptions, "Judge", to the fact that by and large the people feel that anything is good enough for those guys down at the courthouse, and yet a bad courthouse, and look

at them, that can't perform administratively, and can't provide the place for competent employees competently to perform their jobs is a great waste to the taxpayers, but only the people can vote the money to give qualified administrative personnel an efficient place in which to perform their necessary duties. This is a contradiction, but this is the way the people call it very often.

We have situations where - let me recite one - in the County of Los Angeles, in the City of Los Angeles the pollution of the beaches was so bad that the State Department of Public Health and a court order imposed upon the City of Los Angeles the obligation not to continue the pollution of that water. They dutifully submitted a bond issue to the people and the people turned it down and the City Council was in contempt of court. How silly can that get to be? Now I don't believe, let me hasten to add, that the City Council or the Board of Supervisors any more than the Legislature should have the unlimited power to build anything it wants without any ground rules and impose the cost of it on the people. But I do say that the idea that the only way to approach it is an item by item, vote by vote, is not in my opinion the right way. It would be possible; I think, and maybe it would be more logical to say that if a board of supervisors or a city council has submitted an over-all plan for a capital outlay program to the people and they get a majority vote on the right to raise the taxes which the implementation of that plan would require, that this is a wiser thing than to say the people

can vote against a sewer system because it has no appeal and vote for something which is much less urgently needed. The people should not have to decide priorities. This is why you elect a city council, this is why you hire a city manager, this is why you have an engineer and a Department of Public Health, and all of this paraphernalia of government in order to make administrative judgements of administrative questions, but the people are asked to decide finally what is essentially an administrative question and in terms of whether or not they want to bond themselves.

Now I have no formula at the moment, I haven't been asked to prepare one, and I don't profess that I have the qualifications to resolve this in terms of drafting, but I do want to make the point that the assumption which underlies the proposed Constitutional Amendment is in my opinion erroneous. Now beyond that, I have some other observations I would like to make.

ASSEMBLYMAN BRITSCHGI: May I ask a question at this point? Dick, aren't you assuming that all elected officials will be doing the proper thing all the time and we shouldn't have any check on them?

MR. GRAVES: Well, no, Carl, my . . .

ASSEMBLYMAN BRITSCHGI: I mean that's an ideal situation ...

MR. GRAVES: No, no. I have an answer for that, you see, because I have worked with this one for a long time. Let's take

Congress. Who votes on what the Congress does? When they incur how much debt? But the remedy is in the hands of the people, all they have to do is change congressmen. That is the way the National Government functions in its representative concept. The people don't decide the issues, they send men to Congress to decide. If the congressmen decide them wrong, they change congressmen. You are a member of the Legislature. If you go up there and vote for an expenditure of money, or an imposition of a tax, which parenthetically may I say, that all those who return will face, the people should not have to - the people will not have to vote on what you do, but they will vote on what you do by the way they vote on you. This is a representative society and a representative government. Now the same thing applies locally. I hold no brief for every member of every board of supervisors or every city council. Although they do a lot better job than they commonly get credit for, but they are so close to their electorate that if they went off the deep end - bingo! Because in local government you have one weapon you don't ordinarily invoke otherwise, and that's the recall right now. Not just the referendum but the recall. And right in the middle of voting some kind of a building for too much money, the people have the remedy - put a referendum on the action and a recall on the Board. This it seems to me is more responsible government than this. Now that's just one man's opinion.

CHAIRMAN MASTERSON: Could I ask you this question in connection with that. You don't question, do you, that the original intent of Section 18 of Article XI was to put just the kind of restriction on the incurring of indebtedness that you think should not be done?

MR. GRAVES: No, I agree that it was entirely its concept. But it had its origin in a society that was agricultural; where all wealth was represented by land and cattle; where only those who owned land and cattle could vote anyhow; and it never contemplated a situation in which as we have it now in the cities of this State, far less than half their total income even comes from property tax in the first place. Now remember, you have cities in this State that get 75 percent of their funds from non-property tax sources. They can fund the whole bond issue without levying a dollar of property tax. But the implication here is that property is going to pay all these taxes; property owners must decide. This isn't true either. You see, one of the things you might have considered and might yet consider is whether there is any distinction to be made between a measure which can be funded out of non-tax revenue and a measure which must be funded out of the property tax. There is a substantial difference. There is - but this had a historical origin, "Judge". And that's it. It was in the agrarian society where the land holder had the franchise. And they paid all the taxes too. Direct ones.

ASSEMBLYMAN BRITSCHGI: Dick, if I read between the lines you are telling us now we have better men in public office than we had years ago, because he was a cattle man or something he didn't have .....

MR. GRAVES: No, I don't mean that. What I mean is, when the vote was restricted - the people who voted also paid all the direct taxes. There was at least some concept of support for this. This isn't the way it is anymore.

CHAIRMAN MASTERSON: Have you given any thought to the question of whether or not the interest rate on general obligation bonds would be affected adversely or favorably, or at all if we removed the requirement of the vote of the people?

MR. GRAVES: Now, let's say this. That the 60% vote or the two-thirds vote or a 50% vote has, if I may say so most respectfully, nothing at all to do with the interest rate. The thing that has to do with the interest rate, I'm sure you know at least as well or better than I, is; is the obligation a direct and binding obligation of the district which must be paid by the levy of taxes or where the Board can be compelled to make the levy to pay, that's one. And secondly, whether that obligation in relation to all the other obligations of the district are such that this is a sound financial jurisdiction so that its bonds command a good rate.

Now they can have a 90% vote in a jurisdiction that is not a good credit risk and you won't get a good rate. I'll show you

bond issues where they're G. O. bonds and they are 52 percent and they are in this State. And it's these two things; is the obligation enforceable and is the jurisdiction sound and solvent? Now the second one, while I certainly recognize that a loose system would be prejudicial to the credit of the State, and I'm not advocating a loose system, I'm advocating a different system, but that's an automatic thing because there are bond issues which can be offered which can't be sold at all, at any rate, because the market controls itself. You can't force an investment banker to buy a bad bond issue. In that sence, if the jurisdiction went crazy it would have no capital market, no credit, no way to sell its obligation at all; regardless of the interest rate. But I am not - this has an overtone that I'm suggesting that you take this lid off and let everybody go, and I'm not. I'm just saying that there is another approach. It is also to be controlled and guided and restricted, but in a different frame of reference where the legislative body is not written out of the deal.

CHAIRMAN MASTERSON: Would you care to elaborate on what those restrictions should be in your opinion.

MR. GRAVES: Well, let me say this. That - and as I said a moment ago, Mr. Masterson, I have not the time or the right or anything else to come in with a proposal. I don't represent anybody. This is .....

CHAIRMAN MASTERSON: Well, we are interested in getting information .....

MR. GRAVES: But I would say this, that one of the things that you might consider doing is whether or not some of these special revenues that are available to cities might not be pledged. Now, let's take for instance, and I know this is a controversial thing, it was controversial when I had it - when I was directly interested in it, let's say that a city or a county could pledge gas tax, just for instance. Are we to say because they can make a long term commitment to a plan which the Division of Highways has already had to approve that instead of making a short term commitment which is all right if they make a long term commitment, it's all wrong, and they are going to go crazy? Suppose the Board of Supervisors instead of having to deal with its road problems year by year because you can't project, could actually get on top of this? They know how much gas tax they are going to get. And as part of this program you could circumscribe this so that there was assurance of maintenance money and there were some other assurances that were required, they could take gas tax and they could pledge it.

Now, let's see, is this a revenue bond issue?

CHAIRMAN MASTERSON: Not in my opinion.

MR. GRAVES: Would this rate be pretty competitive with a G. O. bond rate?

CHAIRMAN MASTERSON: In my opinion there isn't any question about it.

MR. GRAVES: Sure, for a year maybe until a market developed that got accustomed to this type of security, there might be a small premium or penalty as you choose to call it on the rate. But basically if that was guaranteed to be paid out of tax money and it was tax free the rate would be competitive very shortly, because that rate whether it's revenue or G. O. is a reflection of the risk to the lender, nothing else. And if there is no more risk, there is no higher rate once the market is prepared and understands the type of security offered.

That's an example. Let's take another. The Constitution was amended exactly in this fashion to permit the pledging of parking meter money in order that a city might be able to issue revenue bonds for off-street parking. This is the principle that is involved here. But surely parking meter revenues are not as stable a source of revenue as gasoline tax so that this is more nearly a true revenue bond rate. It's a premium rate, all right. Now let's take it one step farther and say that the State-wide policy having been pretty well determined with regard to sales tax and let us suppose the law gave a city the right to commit some percentage of sales tax revenue to capital expenditure. If - regardless of the form the instrument took - the experience of the city was that they got a hundred and fifty thousand dollars a year from the sales tax and had for the last ten years and you figure no matter how tough things get they will get half of it and you can project capital expenditure from that sales tax, which 75,000 dollars a year would amortize. So long as that is permitted to be a direct obligation of the district in the sense of a bond it would command a highly competitive rate.

And all I'm saying is, you see, is that there are methods of approaching this which implement the powers of the Board of Supervisors or the City Council instead of nullifying them.

It's almost useless in the present circumstances to have a long term capital outlay program. Because you make all these administrative and some political judgements and then what happens? You call the roll of the citizens. And that's about all I came here to say, really, I hold no brief for leasepurchase, it's expensive. There are some things in here that I think are not necessary.

If Mr. Teeter doesn't disapprove, may I just discuss the hanger situation? The county is not committed to this, but it is a good illustration of several problems.

At Buchanan Field, which is the County Airport of this County of Contra Costa, they have need - real need - for some hangers. The total expenditure is somewhere between \$75,000 or \$150,000, maximum. The airport generates more than sufficient revenue without even the new revenue to be produced by these hangers. To make it possible for the County to finance those hangers under a situation where they would be precluded from ever using tax money to pay this, nothing but rental income, that's the limit of the obligation no matter what happens. That's all they commit, is rental income. Now must they go to a vote of the people of the entire County in order to get a judgement that

they need two hangers at Buchanan Field when a great many people in this County don't know that there is a Buchanan Field or where it is. Now this is what I mean - here is a \$150,000 expenditure in a county, the total budget of which is, about \$32,000,000 which they entrust to the Board of Supervisors without a vote of the people, but if they want \$150,000 worth of hangers the people have to say so - this is an absurdity. There is a method, it happens to be legal now, this would make it illegal, where the Board can enter into a direct contract of purchase pledging only the rental income. Just buy them. They control the design; it's their land, we build them, we sell them to the County on an installment-purchase contract. All they pledge is rental income of the airport, it's perfectly legal under the law now and the deal is done. And it's not at a bad rate, because that is a tax free obligation. Let me show you - you just knocked it off in here.

ASSEMBLYMAN BRITSCHGI: Well Dick, isn't it true in most of the revenue bonds that they are backed up by the general obligation?

MR. GRAVES: No sir, by definition, a revenue bond cannot be. You cannot levy taxes to support a revenue bond or it is not a revenue bond and it has to go to a two-thirds vote of the people because of the overtones of the general obligation. So it is not truly a revenue bond. What you're really doing there .....

ASSEMBLYMAN BRITSCHGI: That's what I thought I was getting at.

MR. GRAVES: Well now, I'm talking like a lawyer - which I'm not. I mean, anything that I know rubbed off on me from Bud Carpenter, so ask him. But the thing is that there is no - at least there is not properly the recourse to taxes in a revenue bond. Now you can have a general obligation bond issue and never pay it out of property taxes, by using sales tax or something else, but ordinarily, a revenue bond is not secured by property tax. At least so far as I know. I would suggest you ask Mr. Carpenter that question.

ASSEMBLYMAN BRITSCHGI: It seems to me that we backed up some of our bonds down below with the general obligation that if the area, and we are talking about parking, you mentioned parking . . . .

MR. GRAVES: Now you might have proceeded under some section of the law which authorizes a special assessment district for parking.

ASSEMBLYMAN BRITSCHGI: That's right.

MR. GRAVES: Well that is not then in that sense a general bond, it is a district obligation.

ASSEMBLYMAN BRITSCHGI: Well, that's how we took it and put it through at that point.

CHAIRMAN MASTERSON: Any other questions by members of the Committee?

ASSEMBLYMAN BRITSCHGI: I didn't mean to interrupt you.

MR. GRAVES: Not at all. I'm quite finished. I just wanted to make one point and that was there was another way to look at this one and that one of the ways to do it is to recognize the supreme obligation for that government which is in the Board of Supervisors and in the City Council and undertake to implement some of their powers wisely, and with proper safeguards rather than to proceed wholly on the assumption that they are incompetent to spend funds for capital outlay, although they are competent to levy taxes and spend funds for every other darn thing.

CHAIRMAN MASTERSON: Do you think that - irrespective of your thought that the original intent wasn't too good a one - reducing it from the 66 2/3 vote requirement to a 60 percent requirement would be an improvement upon the present situation?

MR. GRAVES: Well, I suppose the answer to that would have to be yes, but I do think this, Mr. Masterson, and that is - your Committee has created a situation where you do have an opportunity to do something more significant than that, and I would hate to see you waste the opportunity.

CHAIRMAN MASTERSON: Thank you.

ASSEMBLYMAN BRITSCHGI: Could you limit it to anything else? You are speaking mostly as a municipal man.

MR. GRAVES: Well, not even that any more. I'm speaking out of municipal experience.

ASSEMBLYMAN BRITSCHGI: I'd like to have your background.

MR. GRAVES: And what was the question again, Carl?

ASSEMBLYMAN BRITSCHGI: How about your irrigation districts for example, and other districts. We got a million of them.

MR. GRAVES: Well, the theory must be if it is sound policy as to the county and city then it is presumably sound as to the others. I think you are opening more of a Pandora's Box there than you realize.

ASSEMBLYMAN BRITSCHGI: That's what I'm afraid of.

MR. GRAVES: Thank you very much, Gentlemen.

ASSEMBLYMAN BRITSCHGI: Thank you Mr. Graves.

CHAIRMAN MASTERSON: The next witness is Mr. Alan M. Firestone who is the Chief Deputy City Attorney of the City of San Diego. Mr. Firestone will you state your name for the record.

Will you wait just a moment, I note the arrival of Assemblyman Klocksiem from Long Beach. Herb would you come up and join us please. I hope you had a pleasant plan ride up.....

ASSEMBLYMAN KLOCKSIEM: Very nice trip. I'm an hour late, I know.

ALAN M. FIRESTONE CHIEF DEPUTY CITY ATTORNEY CITY OF SAN DIEGO SAN DIEGO. CALIFORNIA

MR. FIRESTONE: Mr. Chairman, Members of the Committee, I'm Alan M. Firestone, Chief Deputy City Attorney for the City of San Diego. I'm here in a dual capacity today in this sense - I have appeared before you on previous occasions representing the City of San Diego. Today Mr. Ray Eberhard, who is Counsel for the California Municipal Utility Association is engaged in appearing before another committee hearing and the President of the Association has requested that I enter the appearance of the Association at this hearing today and make a simple statement reaffirming the position which has heretofore been presented by Mr. Eberhard to the Committee.

I have, I think, at some length presented the position of the City of San Diego heretofore. You have received my comments with a great deal of courtesy and I certainly appreciate it. I am here to day only to reaffirm the position which I have advanced before this.

The first, and I believe it has been accepted by your Committee was that position which would encourage the removal of the restriction of the use of revenues from a particular fund to pay off general obligation bonds. This was the main objection which

the City had to the bill in its prior form. In reading the amendment of January 24, 1957, I believe that objection has been removed.

We also were - would like to encourage the Committee to reduce the voting to 60 percent. In fact the position of the City would be to further reduce it to 50 percent. Without getting involved in any philosophical discussions about the basis for that section, it's our feeling that from a financial standpoint, a matter of 10 percent costs the city taxpayers a pretty substantial amount in an indirect way. It's been our experience that on many occasions when we have used general obligation bonds for a particular fund, or particular use for example - water revenue bonds - we can, as I'm sure you are all aware, get a better interest rate on the bonds than we can by the use of revenue bonds. For various reasons sometimes it has been ascertained that revenue bonds would stand a better chance of success before the electorate than would general obligation bonds at a substantial increase in cost.

I was sort of interested in Mr. Britschgi's comments concerning the reduction in the percentage required for general obligation bonds for this reason, I - as you probably are not aware - commented in my last appearance concerning some rather ill-fated experiences which happened in San Diego County. One of which was the County Courthouse facility. On at least three occasions over the past eight to ten years general obligation bonds in

the County were defeated by fairly narrow margins. Our County facility, incidently down there - courthouse facility, had been built almost at the inception of the City. The facility was so bad and such a disgrace that the bond issue was an absolute necessity. Finally it passed last year. I say last year, construction was commenced last year, it was several years ago that it passed. The facility is now under way at a very substantial increase in cost over what it would have been some ten years ago. The same thing had occurred in connection with general obligation bonds in the City, which was defeated as I previously commented, by a very slight percentage, some two percent. Under the two-thirds vote requirement, the cost of that facility now has almost doubled over what it could have been put in for some four years ago.

ASSEMBLYMAN BRITSCHGI: May I interrupt for just one second, Judge -

CHAIRMAN MASTERSON: Mr. Britschgi.

ASSEMBLYMAN BRITSCHGI: In that particular vein would - it had been true - now of course I don't know your San Diego situation there but, there probably was something that the people objected to in your specific plans that were laid out to the general public and if some items had been deleted, possibly you might have gotten your bond issue over before. Now I'm just assuming that somewhere along the line, a group that were probably strong enough to throw the other two-thirds out or the one-third

out the window, objected to something that they felt might of been - let's say a little frills and fancy things - that the good people in San Diego thought shouldn't be in there.

MR. FIRESTONE: Unfortunately this is not what occurred. I, of course, hesitate to use any names or even discuss the situation in any great detail before you gentlemen, but you're in this rather negative situation that if a very strong group opposes any general obligation bond issue and for whatever reasons they may be, political or otherwise, and determines that it's going to spend a substantial amount of money, every vote that they can produce as a "no" on the election offsets two other "yes" votes. And this is very unfortunate, because in most cases it's extremely difficult to engender private funds to go forward and campaign for a bond issue. In our City at least, we are prohibited and I'm sure other - all other public agencies are likewise from supplying any forces toward a campaign of this sort. So you are faced with this paradox that you can't campaign for it and yet some group campaigning strenuously against it need only get one vote more than one-third and they've got it defeated. And this is rather unfortunate. It's not really an expression of the people, as I see it.

We have several kinds of public improvements that are required now in San Diego and in each case, when we have tried general obligation bonds, in one case revenue bonds are not feasible because there would be no source of revenue which could be pledged

for it, they've been defeated by very narrow margins on a question because of some particular group in opposition. One was our public auditorium situation which was defeated because a group of property owners at the location that had been picked decided they didn't want to sell their property which of course they would have had to do had the bond issue gone through and they campaigned very strenuously on a one for two basis again.

And this is the kind of thing which reacts in a very negative way.

And I would on behalf of the City of San Diego very strenuously urge that the Committee give some consideration to a further reduction in the 60 percent for that reason. And for the reason that sometimes we are pushed over to the side of revenue bonds which costs the taxpayers, indirectly, more money because of the higher interest rate.

I have heretofore made no comments whatsoever concerning the lease-purchase arrangement. The City of San Diego has never used it nor could we even if the Constitutional Amendment were involved because we happen to have a charter section which prohibits the pledging of any kind of funds whatsoever without a vote of the people. That is a long continuing obligation kind of section so that we are restricted in any case so we are relatively unaffected by what occurs in that field.

I'd like to say at this time that I certainly appreciate the Committee's courtesy to me both today and heretofore. If there are any questions I certainly would attempt to answer them.

ASSEMBLYMAN BRITSCHGI: Would you be willing to support
Dick Graves' theory on the fact that - if I followed them along he didn't feel that the city council or supervisors should even
bother going to the people with anything and spend all the money
you want.

MR. FIRESTONE: Well, fortunately for Dick Graves, as he stated before, he is here purely in a single capacity. Fortunately for me, I can take a lawyers standpoint and state that this matter has not been presented to our officials and so I'm not in any position to make a statement thereon.

ASSEMBLYMAN BRITSCHGI: I'll buy that.

CHAIRMAN MASTERSON: Are there any other questions?
Mr. House.

ASSEMBLYMAN HOUSE: Mr. Firestone, this bond issue that failed for the courthouse facility down there, when it eventually passed was it substantially the same as it was when it was defeated?

MR. FIRESTONE: Yes sir. Not only that .....

ASSEMBLYMAN HOUSE: I think that's more in line with what Carl was asking - due to education and so forth - and need probably increased all the time.

MR. FIRESTONE: Well, the need, I don't know whether you gentlemen are familiar with that old courthouse, but we've

needed a courthouse down there for the last twenty-five years. The courts are spread out in little temporary buildings. They even went so far as to rent half the Hotel San Diego which is across the street. And we have at least half of our courts over there now which is kind of a peculiar situation.

CHAIRMAN MASTERSON: And expensive.

MR. FIRESTONE: And very expensive, but of course the owners of the San Diego Hotel like this very much.

ASSEMBLYMAN BRITSCHGI: Is the elevator still working, the glass elevator in front of the Cortez?

MR. FIRESTONE: In the Cortez - yes sir.

CHAIRMAN MASTERSON: Are there any other questions?

Thank you very much, Mr. Firestone, we appreciate the fact that you came here today to testify.

MR. FIRESTONE: Thank you, sir.

CHAIRMAN MASTERSON: The next witness is Richard Carpenter the Executive Director and General Counsel of the League of California Cities. Will you state your name and organization please.

RICHARD CARPENTER, EXECUTIVE DIRECTOR LEAGUE OF CALIFORNIA CITIES HOTEL CLAREMONT BERKELEY, CALIFORNIA

MR. CARPENTER: Yes, Mr. Chairman and members of the Committee. My name is Richard Carpenter and I am representing the League of California Cities. I have a prepared statement here. I'll give copies to the Committee. I've made a couple of corrections in my copy which I will read into them and they will be in the record so that you can note the difference.

The cities of this State have been operating under the provisions of Section 18 of Article XI of the Constitution of California since 1879 and therefore, as an association of cities, we appreciate the opportunity to appear and testify on proposed amendment.

We understand that your Committee is considering the subject matter of ACA 46 and is not committed to any particular language. It is not my intention to comment on drafting and ambiguities but rather to confine my remarks to the ideas contained in ACA 46.

Although the Constitution of 1849 provided in Section 1 of Article VIII that the Legislature should not incur any debt or liability exceeding \$300,000 without a majority vote of the electorate, no similar provision was included therein placing a similar limitation on municipal corporations. The 1849 Constitution did provide in Section 37 of Article IV that:

"It shall be the duty of the Legislature to provide for the organization of cities and incorporated villages, and to restrict their power of taxation, assessment, borrowing money, contracting debts, and loaning their credit, so as to prevent abuses in assessments and in contracting debts by municipal corporations."

One of the first acts of the California Legislature (Chapter 12, Statutes 1850) providing for the incorporation of cities, authorized city councils to borrow money only when approved by a majority vote of the electors and further provided that even with the majority vote the debt of the city could not exceed three times its estimated annual revenue nor could direct taxes exceed 2% of assessed value. Subsequently when cities were incorporated by a special act of the Legislature an exact dollar amount was fixed as a limit on city debt. For example, Nevada City when incorporated had a debt limit of \$5,000 (Statutes 1856) but in 1858 this was reduced to \$1,000. Special legislation was the basic evil of the times and municipal extravagance frequently was the fault of the Legislature - rather than the local legislative body. In 1854 the Legislature, for example, authorized the City Council of Sacramento to issue \$120,000 of general obligation bonds without any vote of the people of the City and incidentally, the interest rate then was 10%, fixed by the Statute. There are hundreds of examples of special legislation enacted between 1850 and 1879 directing city councils and city officials to audit and allow claims for public works or for

materials and supplies. In many cases the work was performed or the materials and supplies furnished without the authority or knowledge of the local legislative body. These abuses and this form of extravagance was not stopped by the two-thirds vote requirement of Section 18 of Article XI but rather by Section 25 of Article IV prohibiting local or special laws and Section 6 of Article XI prohibiting the creation of municipal corporations by special law and providing for the incorporation of cities by general law.

The debates and proceedings of the Constitutional Convention of 1878 and 1879 are not helpful in giving us a clue as to why the Convention or its committees determined that a two-thirds vote of the electorate would be necessary for municipal corporations to incur indebtedness over and above annual income, but a majority vote would continue to be sufficient in the case of State indebtedness. Certainly, the extravagance of state government referred to by the Court in People v. Johnson, was as serious as any subsequently mentioned by those writing about indebtedness of local government.

Early in the Constitutional Convention a proposed amendment referred to committee would have prevented city borrowing without a majority vote for any purpose other than the acquisition or construction of waterworks. I am unable to find any record of action by the committee on this amendment.

The Local Government Committee of the Convention recommended a proposal substantially similar to the present language of Section 18 of Article XI except that it also prohibited incurring any indebtedness even with a two-thirds vote if the indebtedness was to exceed 2% of the value of taxable property. Exceptions to the 2% limitation included courthouses and jails. The entire debate apparently was confined to attempts to add to these exceptions (waterworks, schools, roads, and the like) and to raising or lowering of the 2% limitation. After considerable debate on separate days, the Convention voted by a very substantial majority to eliminate both the 2% limitation and its exceptions. For those interested in reviewing the floor discussion of this section of the 1879 Constitution and avoiding some of the mistakes of the past, I have a reference in here to the pages of the Constitutional debates. It is of passing interest to note that many of the same things are being said today but only by different people. I mention this history only to show that my research has failed to disclose any reason why the people of the State can incur an indebtedness by a majority vote, but the same people within their respective communities cannot incur local indebtedness without a two-thirds vote.

The League of California Cities is not in favor of any constitutional amendment which will make it more difficult for cities to finance capital improvements required by the enormous increase in population. During the depression needed improvements were deferred for lack of funds. During World War II

when the need was even greater, the improvements were deferred because of lack of materials and manpower. Subsequent to World War II many of the needs were met, but because of plant obsolescense and inflation and explosive growth with its heavy demands for new and expanded facilities, many cities found and continued to find themselves unable to finance essential public facilities. Sound and alternative methods of financing public works facilities must be devised. Federal aid costs a dollar for every ten to fifty cents returned to California taxpayers so this cannot be a solution.

Some of the alternatives to general obligation bonds and a twothirds vote used by cities in California are more expensive to
the taxpayers than the use of such bonds. It is now proposed to
restrict some of these alternative methods of financing not
necessarily because they are more expensive but because in a few
cases they do not express the will of the voters. They do,
however, reflect the will of the elected representatives of the
people.

I have not heard it suggested that there should be a similar revision of Section 1 of Article XVI of the Constitution which would impose similar limitations on the State and the Legislature, but I assume the Committee is equally concerned with all forms of public indebtedness whether state or local and that whatever is suggested with respect to local government will have equal application to state government. It appears to us that instead of placing limitations on completely valid but alternative

methods of financing public works, it might be more desirable to facilitate the use of the least expensive method of financing, that is general obligation bonds, by reducing the vote from the present two-thirds requirement to a simple majority as in the case of state bonds. The skill and ingenuity of man is such that notwithstanding the wisdom of those now concerned with placing new limitations in the Constitution, legal methods of avoiding such limitations will be devised as a matter of necessity and approved by the courts if the public welfare requires public facilities. I am not talking about extravagance, or frills, or even merely desirable projects, but rather about streets, sewers, waterworks, health facilities and the protection of life and property. Frankly we have come a long way since our Constitution of 1849 and 1879. The development since then of good budgeting, accounting, auditing and reporting suggest that we should review the basic question of the amount of authority we could properly give now to our State and local legislative bodies to incur indebtedness.

We believe that Section 18 of Article XI should be amended to include the State of California as well as its most insignificant local district or public corporation. In revising Section 18 of Article XI in this manner consideration should be given to consolidating the provisions of Section 1 of Article XVI relative to State indebtedness. In our opinion, legal avoidance of the present restriction has been possible only because of the unreasonable vote requirement. If you believe that a two-thirds

vote is not unreasonable, then I assume that cities may reluctantly accept the same limitation when incurring local indebtedness. We need only wait until November of this year to determine how many State bond issues which the members of the Legislature deemed necessary to submit to the people for their vote will be adopted by a margin of 66-2/3 percent of those voting.

There appears to be little controversy over amending Section 18 of Article XI to include all public agencies. There appears to be considerable controversy even among the public agencies in the reduction of the 66-2/3 percent vote requirement to some lesser percentage. We are told that psychologically this will have an adverse effect on the investor with a resulting increase in the cost of general obligation bond financing. While we understand the argument, we fail to understand why this same investor in many cases is willing to accept a lesser rate of interest on bonds of other agencies issued with only a majority vote. It appears to us that the investor is going to be interested in the fiscal integrity of the issuing agency, its financial history, management, and administration, and the future of its economy. A city with a poor financial record and very dim prospects for sound economic development and growth will pay a higher rate of interest on general obligation bonds approved by 100 percent of the voters than some communities issuing obligations which have received the approval of only the legislative body.

We have examined the statements prepared by Mike Tellefson,
City Attorney of Culver City, and Harry Williams, City Attorney
of Azusa and West Covina, and wish to incorporate those statements as a part of this presentation.

Lease-purchase as a method of financing has been used by the cities of California for a great many years. Extremely expensive personal property such as a fire truck or earth-moving equipment as been acquired by many cities through lease-purchase. Most vehicular equipment so purchased will not fall within the proposed prohibition because title would be acquired by the public agency prior to the ten-year limitation. This is not true in all cases, however, and some thought should be given to items of personal property which may have a usable life of from twenty to forty years.

It would appear also that if the State of California is to be limited so that it may not enter into such lease-purchase arrangements without approval of a majority of the voters, the representatives of local government may reluctantly have to accept a similar limitation also. However, I wish to make it perfectly clear that in our discussions with official representatives of city government, we find that most of them will be opposed to limitations on their powers either to lease or to purchase or to lease-purchase. And that the views expressed by the City Attorneys Williams and Tellefson were not minority viewpoints.

It is equally clear to us after discussion of this subject with city officials that they will be opposed to limitation on their authority to issue revenue bonds. It appears to us that as to General Law cities this would be an unnecessary provision in the Constitution. The Legislature has authorized local governments to issue revenue bonds for several necessary municipal purposes. In every case a majority vote is required. Either the people vote on each specific issue or they vote to approve the revenue-bond method of financing and thereafter the legislative body issues revenue bonds pursuant to the general authority granted by the electorate. The first method where the voters, in each case, vote on each issue is the one generally used by the cities of this State. The charter cities of California are in a far different position because the issuance of bonds for municipal purposes is a municipal affair and unless the charter contains a limitation on the authority of the city, the city is free to provide its own method for the issuance of such obligations. The proposed Constitutional Amendment would change this rule and make the charter with respect to revenue bonds a grant of power rather than a limitaltation of power. In our opinion, every charter city in California would oppose such a basic change in its constitutional municipal home rule power granted in 1914.

The special-fund doctrine recognized in California and in almost all of the other states should in no event be restricted by a revision of Section 18 of Article XI. Obligations payable

solely from a special fund and not from general funds or tax levies are not an indebtedness within the meaning of Section 18 of Article XI. Thus, if a city wishes to acquire any revenue-producing enterprise and the person loaning the money to the city is willing to look only to that revenue for repayment of principal and interest, the obligation is valid and not within the constitutional prohibition. Any restriction of the broadly interpreted special-fund doctrine will only add to the burden of the property taxpayer who is supposed to be the beneficiary of ACA 46. The members of this Committee are, of course, perfectly aware of the fact that present mandatory limitations in the Constitution were designed to prevent property tax indebtedness and not forms of indebtedness payable from other sources of taxes or property revenue.

As you well know, one of the most difficult problems confronting local government is the financing of adequate public works facilities to take care of the needs of a continuously mushrooming population. From time to time, proposals have been made to extend the credit of the State to local governments to provide a cheaper method of financing essential public works facilities. In the case of sewage facilities the credit of the State already has been so extended. More recently the members of this Committee and other members of the Legislature have approved the State Budget which includes a \$5,000,000 item for loans to counties and cities and districts for small boat harbor facilities. A Special Session ballot proposal and bill provide an additional

\$10,000,000 for this same purpose. These loans must be repaid with interest. If the State insists on these loans being general obligations of the community, the indebtedness to the State first must be approved by a two-thirds vote of the local voters and, frankly, this requirement together with low interest rate now available on general obligation bonds will make such State loans attractive only to the poorest risks. It would seem that if the State credit is going to be used to assist all cities and not just the poor risks, loans should be made at the cost to the State of such money and the obligation to repay the loan should be only from a special fund and not the general fund.

The proposal to amend Section 18 of Article XI excludes contracts between the United States and any local agency. We would like to urge the members of this Committee to consider recommending a Constitutional Amendment which would extend the credit of the State to local governments at low rates of interest in order to enable them to undertake essential projects which do not lend themselves to revenue bond or special fund types of financing.

Briefly then, it is the view of the League of California Cities that Section 18 of Article XI might be amended to include all public agencies. It is also the League view that the two-thirds vote requirement should be made to conform to the majority vote requirement applying to the State itself. With these two changes, no others would be necessary because the availability of general obligation bonds would make the more expensive methods of

financing unattractive and, as a practical matter, unacceptable to local legislative bodies. State loans at low interest rates at State cost of money should be authorized either in ACA 46 or in a separate measure.

That completes my prepared statement, Mr. Chairman. I would be happy to answer any questions that the Committee members may have.

CHAIRMAN MASTERSON: Do the members of the Committee have questions?

ASSEMBLYMAN KLOCKSIEM: Would you mind going over that part affecting chartered cities again. You don't have to read it. What would have to be done in the case of Long Beach as a charter city?

MR. CARPENTER: I was referring then, Mr. Klocksiem, only to the question of revenue bonds and attempting to show that any Constitutional Amendment which would indicate that it was not applicable to those charter cities that had express authority in their charter to issue revenue bonds would, in effect, be imposing a limitation on charter cities that does not now exist. Because notwithstanding the opinion of bond counsel in this State as to the psychological effect of having a charter amendment, the law clearly is that charter cities may, if they have no charter limitation, provide their own method for issuing revenue bonds. For example, if there is no charter restriction

then the legislative body is free to devise its own procedure. They could, for example, grant unto themselves by ordinance procedure, if there is no charter restriction, authority to issue revenue bonds. They can establish this by ordinance or you can have it in the charter. If there is no charter limitation, they have the power. It is the same as it is with respect to the State itself and to your own State Legislative body. The Constitution of California is a limitation of power on the Legislature and if the Legislature does not find any limitation in that Constitution on its power then it may exercise a power and that same thing is true of city charters adopted after 1914 that have taken advantage of this Municipal Affairs Section of the Constitution. If there is no limitation in the city charter and the matter is one that relates to municipal affairs, then that charter city has the authority to exercise that power. This proposed Constitutional Amendment in the language that is now in there would in effect change that rule and to that extent I said I thought charter cities would certainly oppose it.

ASSEMBLYMAN KLOCKSIEM: Thank you.

CHAIRMAN MASTERSON: Any other questions?

Could I ask a question, Mr. Carpenter? You mentioned that limitations might be placed upon legislative bodies to restrict them as to the type of improvement for which they might incur an indebtedness and in connection with this give to the legislative body the right to do it without a vote of the people. I wonder if you could elaborate a little .....

MR. CARPENTER: That was Mr. Graves' statement. That wasn't mine, Mr. Masterson.

CHAIRMAN MASTERSON: I understood you to make the same sort of statement in connection with the 1879 discussions that that was a proposal that was made.

MR. CARPENTER: A proposal was made to authorize legislative bodies to issue revenue bonds with a majority vote except as to waterworks where no vote would be required.

CHAIRMAN MASTERSON: Yes.

MR. CARPENTER: Now I would concur - I don't believe that
Mr. Graves made the statement that he would propose that in no
case would you go to the vote of the people in order to incur
general obligation bonded indebtedness. I don't believe he made
that statement. He simply suggested, as I understood his statement, that as an alternative and as a positive approach, it
would be desirable to look at the authority of legislative bodies
to incur indebtedness from a wholly different viewpoint of the
voters. They are a representative body. They can incur certain
types of indebtedness now, and that in suggesting this different
approach that you mention, he simply indicated that this would be
a better approach perhaps from his viewpoint than one that simply
tried to reduce it from 66 2/3 percent to 60 percent. He felt
that that was too narrow a viewpoint to take of this broad
problem.

CHAIRMAN MASTERSON: Has the League of Cities given any study to that approach?

MR. CARPENTER: Well, I think that I have attempted to indicate in my statement that we do believe that a majority vote is all that should be required in connection with the issuance of general obligation bonds. I have also attempted to show that what I believe is the case and that is that a majority of the cities would oppose any restriction on their present authority to lease or to purchase or to lease-purchase. I have also indicated that I believe that no change should be made in the rule in California with respect to financing by a so-called special-fund doctrine. The special-fund doctrine offers to any city in California the authority to pledge the revenues from a particular fund other than a property tax fund to the completion of any type of a project and making only the revenues from that fund or the revenues from that project available to pay off the obligation. Provided there is no obligation against the general taxpayer, that type of indebtedness can be incurred now by the local legislative body. And so if you have the methods that have been devised at the present time and you don't restrict them by your Constitutional Amendment, then I don't believe that we would be concerned -

CHAIRMAN MASTERSON: Well, what I'm trying to suggest to you is this, and I think you agree, that lease-purchase methods - methods other than general obligation bonds - ordinarily cost more because of the taxes that are imposed upon the lender. Now,

what I'm suggesting to you - has the League ever given thought to devising methods of using lease-purchase except that it becomes a general obligation so that the lender can get the advantage of tax - income tax exemptions?

MR. CARPENTER: Yes -

CHAIRMAN MASTERSON: And if so, could you elaborate upon it so that we might have that information before the Committee. Because as you've properly stated, we're dealing with the subject matter that was raised by virtue of the introduction of ACA 46 not to the specific proposal.

MR. CARPENTER: Well, I believe in answer to yourquestion, Mr. Chairman, that the League of California Cities is interested in the most inexpensive method of financing necessary public facilities. The present two-thirds requirement should take into consideration the fact that 14 or 15 percent of the voters, any time they go to the polls, will be voting "no" no matter what occurs, no matter what type of an educational program goes on. This is the experience of most of the elections that we have. So that you are attempting then, to get 66 2/3 percent out of the remaining 85 percent.

It's a very difficult job for any type of local governmental agency and even those that have been most favored by the voters, namely, the school districts are finding that it's even difficult for them to do this. You cannot consider this problem except as

Mr. Teeter said as one that you have to consider all local public districts, all competing for this same property-tax dollar in order to finance their public facilities. And the voters are going to pass on whether or not they want additional schools, or better sewers, or better county courthouses and jails, and those kinds of things I think are fairly difficult for them to pass on and to determine priority. They will be influenced by many, many factors. In connection with the more inexpensive methods, the only one that we know of as the least expensive is the general obligation bond issue, so we say that that should be made as usable as possible by local governmental agencies. It would be more usable if it were a majority vote. The City of Stockton recently in its general obligation bond issue which was sold - sold at 2.6. This is a very interesting rate as far as we're concerned. The bond interest rates are getting back down to where they once were not too many years ago. But this is far more attractive then lease-purchase that would cost you 43 or 5 percent certainly and I think any legislative body, city council or board of supervisors, if they feel that they can get that tremendous difference in interest rate will do so. If there is no other method of financing and if the voters will not approve the general obligation bond method, then I think, the alternative is to go to those that are available and in the order of their cost to the taxpayer.

CHAIRMAN MASTERSON: Well that's undoubtedly a correct outline of the situation that we have now. The thing that I'm asking is -

MR. CARPENTER: That's not quite the situation we have now because what we're suggesting is that we go to 50 percent for general obligation bonds.

CHAIRMAN MASTERSON: That I understand and of course that was ACA 46 as it was first introduced.

MR. CARPENTER: That's right.

CHAIRMAN MASTERSON: But I'm suggesting that thought be given by this Committee and your organization as well, as to whether or not Mr. Graves hasn't opened up a further thought that we could go beyond this, and in effect the kind of things that lease-purchase might now be used for could become general obligations by vote of the council or the legislative body by putting limiting language in the Constitution; that there's only a certain specific kind of improvement that they might be permitted to obligate the general taxpayers for. In other words, they couldn't do it, let us say, for auditoriums or music halls, but they might very well be able to do it for courthouses and waterworks.

MR. CARPENTER: Or for anything that would be affecting the public health?

CHAIRMAN MASTERSON: That's right. And my question really is, has any thought been given to that kind of an approach which was suggested by Mr.Graves this morning?

MR. CARPENTER: We have not, as an Association, considered giving to legislative bodies, city councils specifically, the authority to issue general obligations by a vote, majority or otherwise, of just the legislative body.

CHAIRMAN MASTERSON: I think that it is the opinion of this Committee and of the Legislature that what we are seeking to try to do is to find ways for the financing of needed improvements by the public at the cheapest possible interest rates and I think that the reason for this whole investigation is that the present Constitutional provision doesn't permit local government to make use of the cheapest possible interest rates for their needed improvements, isn't that correct?

MR. CARPENTER: That is correct.

ASSEMBLYMAN BRITSCHGI: May I interject a thought here. I'd like to have Mr. Carpenter's comment on it. The thing that bothers me about this majority vote thing is that the property owner in most cases isn't the one who is doing the voting in the situation and he's the one who eventually ends up paying the bill. As you well know, over in our section over there, when we had this Emerald Lake Hills thing and it so happened that people that owned the property didn't live there and the people who were renting said: "Nuts, I'm not going to vote for this thing because it might increase our rentals.", and consequently voted all of the proposals on down. And I'm just wondering here we're certainly taking away - with a 50 percent vote as you advocate,

Bud - the property owner who eventually pays the bill is going to be snookered into a corner, we might say, where he's not going to ever be able to get out of. But you're going to have people coming in who freelance and they'll vote for anything as long as they can get an advantage on it, but the poor guy is stuck who owns the property because that's the only way that you have to go back at paying these obligation bonds is the man who owns the property.

MR. CARPENTER: Well, I -

ASSEMBLYMAN BRITSCHGI: That's the thing that bothers me on this situation, Bud -

MR. CARPENTER: I don't have any complete answer to it. I think there probably are some partial answers. In the first place, many of the bond issues, the so-called general obligation bond issues, actually the principal and interest is retired by revenue produced from that particular enterprise. Where it's for sewers, you have many general obligation bond issues where there is some type of a sewer charge that goes into the bond fund and actually you don't have to levy the property taxes.

Now, that's true of waterworks, it's true of other types of facilities. Where it's not a revenue producing type of enterprise and there is no method of imposing a charge on the group of beneficiaries because they are not identifiable, why then you must resort to your general property taxpayers. I think even in that case today the situation has changed very materially from

the time when this went into our Constitution. I think it's changed very materially since the depression days of the thirties. I think now that the majority of the people or I don't say the majority, I'd say more than three-fourths of the people perhaps own their own homes now. They are property taxpayers as well as voters and that percentage, I think, was the other way around in 1930 and many people were renters. I have no accurate figures on that but I've heard it stated many times that the percentage has exactly reversed itself and the great majority of voters are now property owners. There isn't any other type of thing that I can think of where in our form of government, we require this unusual percentage of voters unless it is some type of special assessment. But here you're talking about benefit to an entire community when you're talking about your general obligation bonds and yet you're letting a very small percentage stop your community growth.

ASSEMBLYMAN BRITSCHGI: Let's go back a little bit further. Let's go into districts. Say we're in an improvement district; when I was on the council, why we never approved of an assessment district unless we had at least 65% of the majority of the property owners who were willing to foot the bill on the thing. I think we've kind of stuck along with that percentage and I am just assuming, that probably a lot of cities would the same thing, they wouldn't take that chance of going much lower because of the saleability of the bonds when they would go to offer and I think this 66 2/3 percent as used is a darned good rule along a lot of other things that maybe we don't even appreciate the fact that they are being used as a yardstick.

MR. CARPENTER: Well, there are so many different situations and it's hard to generalize. I can think of many cases where you actually need public works facilities whether it is sewage facilities or waterworks or streets that the public simply cannot continue to operate without those types of facilities, as a matter of public health and safety. In that event, it appears to me that you should be able to finance those facilities if you feel that your community has the resources, and that decision is going to be largely made by the person who is willing to lend the money to the city. But if you have that type of problem and you have that resource, then the legislative body, the city council, or the Legislature, whatever the legislative body is ought to be able to go ahead and do it. The feasibility, the economic feasibility, in this particular case is going to be determined by the person who is holding the obligation, the creditor, no matter who he may be.

ASSEMBLYMAN BRITSCHGI: I was just thinking of the property owner who is paying the tax on this thing, if you ever could limit it to the vote of the property owners I would go on 50% because I think he's the guy who is going to get stuck eventually anyway.

MR. CARPENTER: We have a Constitutional provision on that one too.

ASSEMBLYMAN BRITSCHGI: Yes, I know we have.

CHAIRMAN MASTERSON: Mr. Klocksiem, do you have a question?

ASSEMBLYMAN KLOCKSIEM: Just one comment, Bud. Don't you think that if this law was put into effect to reduce this percentage would be more beneficial to the smaller communities than it would be to the larger ones?

MR. CARPENTER: I'm not sure that I know the answer to that one. I would be inclined offhand to believe that it would be of benefit to all of them. But there are cases when even in the largest communities, Los Angeles, the vote may have been 57% or 54% and that would also be, I think, equally true in a small community.

ASSEMBLYMAN KLOCKSIEM: It seems to me it would make it a lot easier for the smaller communities.

MR. CARPENTER: I think that in the main that may be true,
I'm not sure.

CHAIRMAN MASTERSON: Thank you very much, Mr. Carpenter. We're going to recess now until 1:45. Be back at that time.

(The Subcommittee reconvened at 1:45)

CHAIRMAN MASTERSON: The meeting will come to order. The next witness is Joseph Genser, Attorney at Law, who represents the California State Federation of Teachers. If you would come forward, Mr. Genser, and state your name and your organization, we would be glad to hear from you.

JOSEPH GENSER, ATTORNEY CALIFORNIA STATE FEDERATION OF TEACHERS AFL-CIO RICHMOND, CALIFORNIA

MR. JOSEPH GENSER: My name is Joseph Genser and I am the Attorney for the California State Federation of Teachers, AFL-CIO.

Mr. Chairman and members of the Committee, we appreciate the opportunity of appearing here to state our position with respect to this proposed Constitutional Amendment. We are in favor of reducing the percentage of vote required to pass school bonds, which is our principal interest, because our experience has been that this 66 2/3 percent requirement enables a small minority to frustrate construction of school buildings.

We also feel, although we recognize that it's not within the purview of the study being made by this Committee, that the statutory provisions which limit school tax rates ought to be eliminated. In other words, to allow school boards to levy taxes for current expenses without resorting to asking the electorate for permission to exceed the statutory maximums. We feel there's a connection between the Constitutional limitations on bond

issues and the statutory limitation of the tax rate in that the tax rate only requires a majority vote to raise it above the statutory limitations and that because of the difficulty sometimes of having bonds approved, there's a tendency on the part of school boards or school administrators to resort to current revenues to finance capital outlay which we feel is bad public finance. We are not too much concerned about the balance of the proposal with respect to bringing in the terms of the Constitutional Amendment other types of financing because schools usually don't resort to those, either they get a bond issue or they get some form of State aid for school construction. We liked, as a matter of fact, Mr. Graves' suggestion that they eliminate any restriction of the power of the governing body to - if that was his suggestion to sell bonds rather than some statutory or Constitutional safeguards limiting the total amount because we agree that if you elect a school board you ought to give them the power to govern and if they exceed some political discretion then the voters have a remedy in terms of refusing to re-elect those members of the board.

CHAIRMAN MASTERSON: Are there any questions?

ASSEMBLYMAN KLOCKSIEM: What did you say, sir, about the school board should have - I didn't get that first part of your statement there. Did you mean that the people should vote on what the school board should do with the amount of the budget that they have?

MR. GENSER: No. The point I made was that the Education Code fixes the maximum tax rate for school districts and that in order to raise that rate it's necessary for the school boards to ask leave of the voters by putting it on the ballot. A majority vote suffices. We recognize that this is not a problem for this Committee but we feel that that should be eliminated too. That there should be no maximum limitation on the power of the school board to levy taxes. School districts are in a peculiar position. They can't vary the assessment of the property in their district. They are subject - they are captives, in effect, of the assessments levied by the city or county in which they exist. And on top of that, they are restricted in the tax rate by statute. Now they can get the voters to raise that and there is no maximum limitation as to the proposal they can put before the voters, but when you couple that limitation with the Constitutional limitation there isn't much discretion left to the governing body of the school district with respect to financing itself.

CHAIRMAN MASTERSON: Mr. Britschgi.

ASSEMBLYMAN BRITSCHGI: What, in you opinion, is the difference between that and a charter city, for example, where we have a dollar tax limit? Are you suggesting that everybody go hog wild and spend everything they want to? Subject to the limit of the so-called recall, which I don't approve of in any way, manner, shape or form. I think it ought to be thrown out

the window. I don't think we ought to resort to a thing like that. I think we ought to try and get the better people in the first place and we wouldn't have to resort to such a thing as a recall.

MR. GENSER: I live in a city that has the dollar tax rate.

Now we have no parks and the streets are very bad and I would be in favor of eliminating any limitation of that kind and leaving it to the discretion of the city council to fix the tax rate.

I'm satisfied that that would be a political issue every time one of those men ran for re-election and we would have an opportunity to decide whether we wanted to vote for a man for city council on the basis he was going to keep taxes down or he wasn't but was going to provide some service that we wanted.

ASSEMBLYMAN BRITSCHGI: Well, on the other hand wouldn't you have the same opposition on the other side of the fence? Someone would say well, I'm going to keep the high tax and I'm going to keep a low tax rate. It seems to me you'd be having a political turmoil all the time in your schools or in your city council.

MR. GENSER: I don't think so. In the first place there aren't many school boards which are subject to recall and -

ASSEMBLYMAN BRITSCHGI: Well, they are all subject to recall.

MR. GENSER: I forget now, but I think -

ASSEMBLYMAN BRITSCHGI: I suggest to you the City of South San Francisco.

MR. GENSER: That's under a charter provision.

ASSEMBLYMAN BRITSCHGI: A perfect example.

MR. GENSER: That's a charter provision though. I don't think there's any provision for recall -

ASSEMBLYMAN BRITSCHGI: In the school district in South
San Francisco -

MR. GENSER: In a school district that isn't a city school district, under charter.

ASSEMBLYMAN BRITSCHGI: They've had six recalls in the last year and a half.

MR. GENSER: I understand. I agree with you. Recall can be very expensive. But anyway, because I'm not interested in municipal government. I have particular reference to the organization, the State Federation of Teachers is mostly concerned with school problems. We had an election here recently in which two bond issues - we have two school districts - and two tax issues were placed before the voters. There was tremendous opposition to the tax rates. Everyone agreed, apparently, that there was no problem with the bond issues because that wouldn't raise taxes, it would just extend over a longer period of time the taxes which were to be paid. Both lost. The people couldn't

distinguish between them. These successive elections which are required are expensive and when you have a professional staff operating a school system, as every school system does, you don't leave much to the school board and this seems to be a kind of a problem that a school board could decide without too much outside help. Whether we needed a new building or a new playground, things of that kind. So it seems to me that this proposal is an improvement on the present situation, a majority vote would be even better and no vote at all would be best for us.

CHAIRMAN MASTERSON: Are there any other questions?

Thank you Mr. Genser.

Mr. A. O. Lefors, Director of State Activities of the California Taxpayers' Association. Would the Sergeant-at-Arms pass out the copies of his statement. And if you would just state your name and organization before giving your testimony - thank you.

A. O. LEFORS, DIRECTOR STATE ACTIVITIES OF THE CALIFORNIA TAXPAYERS' ASSN. 750 PACIFIC ELECTRIC BUILDING LOS ANGELES 14, CALIFORNIA

MR. A. O. LEFORS: Mr. Chairman and members of the Committee, after listening to the testimony so far today, I find myself in the position of being in the minority group apparently. But I thought the Committee would be disappointed if somebody from the organized taxpayers of the State didn't present their views on this matter of relaxation of the two-thirds vote.

The California Taxpayers' Association was accorded the privilege of filing a statement with your Subcommittee at its meeting in Los Angeles on December 3, 1957. This statement today may be somewhat repetitive, but we feel that the viewpoint of our Association should be emphasized in the matter of public indebtedness.

This state-wide organization of taxpayers believes that property owners should be protected against any easy voting of public debt guaranteed by the property of the people. California Taxpayers' Association is opposed to any relaxation of the present requirement that two-thirds of the qualified electors voting at any election must "assent" before a city, county, or school district may issue general obligation bonds. On the contrary, rather than relaxing the present requirement, we would urge that it be extended by law to cover all special districts as well.

In addition, we are convinced, and we recommend to you, that steps should be taken to require a similar two-thirds "assent" of the voters at an election before local governments may enter into the currently popular lease-purchase arrangements which carry with them a lien against the property-taxpaying resources of the people, similar in tax effect to that of a bond issue.

A study of school district bond elections in California during the past two fiscal years, just completed by the California Taxpayers' Association, indicates that the continuance of the present two-thirds majority vote protection to property owners will not

seriously hamper necessary government construction. For example, during the past year 284 school bond elections were held in California, proposing bond issues totaling \$319,765,000. Voters approved all but \$67,000,000 of those bond proposals.

Now because of previous unsound financial practices which injured the credit of local governments and put a heavy burden upon tax-payers, the 1879 Constitution specifically provided that counties, cities, and school districts (which, at that time, comprised practically all of the public corporations in California):

- Should be required to meet current expenses on a current basis, and
- 2. Could incur indebtedness which was not to be paid from the current year's revenues only by "assent" of two-thirds of the voters at an election.

Today in California, a large number of special districts may issue bonds by a simple majority vote.

Today also, the revenue bond method of financing public improvements which cannot be financed out of current-year revenues is used. Here the people do not have an opportunity to express themselves directly on the creation of the liability for which they are responsible.

The burden of taxation is a heavy one. It plays a most important part in making it possible for business in California to flourish and prosper as we all would like it to do. This burden is composed

of all the direct and indirect taxes levied for the multitude of governmental agencies, as well as the cost of servicing bonds issued by a vote of the people.

To liberalize the present two-thirds vote requirement would further add to this tax burden, and it would undoubtedly result in more bonds being voted as a lien upon property and result in higher taxes being paid by all.

The people who must pay the bill should have an opportunity to express themselves on proposals which commit them to pay in future taxes - through bonds or otherwise.

It has been stated at former hearings of this Subcommittee that,
"the concept that one voter out of three can defeat the desire
and wishes and vote of the other two is a little severe", indicating that the procedure is not democratic. We would point out
that we consider the legislative process in California to be a
good example of democracy in action. The Legislature is required
to give a two-thirds majority vote to some bills, especially
those which carry money appropriations.

The Executive Committee of the California Taxpayers' Association instructed staff to oppose ACA 46, which was referred to your Committee for study. It was the Executive Committee's opinion that ACA 46 violates what we have considered to be a sound financial principle, that the two-thirds vote requirement should be continued to protect the property taxpayers against being

over-burdened and over-taxed to pay for bonds voted. In the course of the Legislative Session of 1957, ACA 46 was amended and now contains a number of proposals in addition to that of liberalizing the vote requirement to approve bond proposals.

We have been instructed to speak at this time on only the two points of the several involved in ACA 46. We believe in the principle we are espousing and urge your favorable recommendation on its continuance.

We appreciate this opportunity of appearing before you to present the views of the California Taxpayers' Association on this matter of public indebtedness. We know that you are aware of the growth which has, and is, taking place in California, and the pressures it is putting on our governments and taxpayers to arrive at sound, workable solutions.

CHAIRMAN MASTERSON: Thank you Mr. Lefors. Are there any questions from members of the Committee?

Mr. Lefors, I wonder if I could ask you a couple of questions Here on the first page, you refer to taking steps to require a
two-thirds assent of the voters at an election before local
governments may enter into the lease-purchase arrangements and
in the previous paragraph you recommend that we retain our twothirds vote requirement as to the incurring of any public debt.
Now, does your Association appreciate the fact that the two-thirds
requirement caused the outgrowth of this lease-purchase method?

MR. LEFORS: No, we hadn't looked into that. It may have been possible. We didn't -

CHAIRMAN MASTERSON: Does your Association know, for example, that in the County of Los Angeles where they have a \$96,000,000 bonded indebtedness, \$49,000,000 of it is general obligation bond indebtedness on which the people have voted and approved and that \$47,000,000 of it is lease-purchase indebtedness on which there has never been any vote of the people?

MR. LEFORS: I didn't realize that it was quite that much. They probably have those figures in the Los Angeles office, no doubt they do.

CHAIRMAN MASTERSON: And wouldn't your organization think that in the spirit of compromise you might better serve the taxpayers if you would compromise to a 60 percent vote if, in return for that, you could put lease-purchase proposals under the Constitutional limitation?

MR. LEFORS: It's quite possible they might go for that.

I can't speak for the Executive Committee, but they might possibly go for such an arrangement as that, I don't know yet.

All we can do is refer it to them, yes.

CHAIRMAN MASTERSON: I assume from your answer that they would look into that. I mean, no doubt the Association is aware of the fact that there are a number of methods by which cities and counties get around the present requirement of a vote and

there's the principle that was spoken of earlier today - I think it was Mr. Carpenter referred to it, which permitted, in addition to lease-purchase the special fund theory. It has been held that if there is a special fund, say waterworks or something like that, from which revenue is coming, it doesn't fall within the Constitutional limitations at all.

MR. LEFORS: Yes, that is very true. I think this is something that should be probably studied further by our Executive Committee on this matter, because it is a matter of policy for them to determine. With this lease-purchase we have had some experience with that, and, of course, we realize that it is very expensive. That's why we were -

CHAIRMAN MASTERSON: And it would seem that we should develop methods, if they're going to go forward with required expenditures for, let's say, a sewer system or a county courthouse, they're going to go ahead with it one way or another and it would seem to be good sense, would it not, for the Taxpayers' Association to support methods that would encourage them to use the cheapest means of financing it?

MR. LEFORS: We agree with that certainly. That's right. We are only concerned with this two-thirds vote limitation. We felt that it should be continued in effect because of the -

CHAIRMAN MASTERSON: I know you've been present at a number of these hearings and I know that you do report back to your organization and I don't know that your Executive Board has been

present, but the preponderance of testimony has been that, instead of accomplishing its purpose, the two-thirds vote requirement is forcing resort to more expensive methods of financing and its really costing the taxpayers more.

MR. LEFORS: That is a possibility, certainly. From the testimony expressed here apparently it's happening that way.

CHAIRMAN MASTERSON: Did you hear the letter that I read this morning from Riverside County, in which the attempt to resolve their problem has been to increase current property tax rates by 14 cents to solve their problem over a short period of time because bonds were unsuccessful? Now, has your State Association looked into the effect of that on the taxpayers?

MR. LEFORS: No, unquestionably they haven't at this point.
But it certainly would be an idea for them to do so.

ASSEMBLYMAN BRITSCHGI: I would like to make just one comment on that. I think that they are probably saving the tax-payers a lot of money in the long run if they can pay for it as they go along even with 14 cents. That 14 cents stretched out over a period of years plus the interest on the thing is a fantastic amount and they will probably be paying 14 cents for a long, long time had it gone into bonds and in this way - why they are getting it all done in a short period of time. I happen to be a pay as you go advocate and therefore I can speak this way.

ASSEMBLYMAN HOUSE: Mr. Chairman - Mr. Lefors, may I direct your attention to paragraph one on page two wherein you used the example of school bond elections and I assume that that is the only one that is considered in that example.

MR. LEFORS: That's right, yes sir.

ASSEMBLYMAN HOUSE: Don't you agree and I think your Association would agree that perhaps a school bond election is the easiest one of all to sell to the public?

MR. LEFORS: Well, that is quite possible, sir. This study was made just because it is, that schools - on the matter of the school bond indebtedness and that's why they made the study.

ASSEMBLYMAN HOUSE: And it shows that about - roughly 80 percent of that was approved.

MR. LEFORS: That's right.

ASSEMBLYMAN HOUSE: I think school bond elections would be easier to sell than sewer bonds or -

MR. LEFORS: We haven't made studies of all the other special district elections that have been held for that matter. It probably should be done too.

ASSEMBLYMAN BRITSCHGI: I was going to suggest that I think somewhere along the line that - if we ever could - Mr. Chairman, get a study somewhere to find out a little bit about

these particular issues that have either been passed or gone on down as to the over-all effect on the majority of them and I think you'll find that frills are probably about the biggest reason that a lot of these things go down the drain. Somebody gets a bright idea and they want to, not only put diamonds in the walls, but they want to have gold carpets and everything else and some of the people just can't buy it. And I agree with them.

MR. LEFORS: Well we've always felt that, of course, that if a bond issue is properly sold it will pass.

ASSEMBLYMAN BRITSCHGI: I agree with you a hundred percent on that.

MR. LEFORS: If it is justified - if it is necessary the people will vote for those things. But there should be some safeguards for the taxpayers, the person who owns the property, in the area.

CHAIRMAN MASTERSON: I gather that you also believe that something should be done to plug the loophole then, to see that just because a bond issue is voted down by the people you don't end up with the same indebtedness with a higher rate of interest. Which is perfectly possible at the present time.

MR. LEFORS: That's right, that's true. That should be taken care of if possible.

ASSEMBLYMAN BRITSCHGI: That should be your elected officials, though, shouldn't it "Judge"? Well, that's what they end up doing certainly. Sometimes in an emergency you have to -

CHAIRMAN MASTERSON: Also in your statement you haven't commented upon it and I think we would like it in the record. I am sure you could comment upon it. Another feature of this amendment was to include the special districts in the Constitutional provisions so that they are controlled by the same rules as are cities, counties and school districts and would you say that your Association would be for or against such a proposal.

MR. LEFORS: We would be for that, sir. I think I stated in the second paragraph on the contrary rather than relaxing the present requirement we would urge that it be extended by law to cover all special districts as well. That's in the statement, sir.

CHAIRMAN MASTERSON: Yes. Are there any other questions?

Thank you very much, Mr. Lefors.

Mr. L. A. Parker, Business Representative of the Los Angeles Building and Construction Trades Council. Would you state your name and organization for the record, if you please.

Mr. Chairman and Gentlemen, I have listened with great interest to the testimony of the various speakers before me and I would like to suggest at least that there should be some differentiation in the types of bond issues. Mr. Britschgi spoke of frills and I agree that sometimes they want to build a city hall or a courthouse that is more elaborate than is actually required, but that's a glamour thing and if you've got to shed the old courthouse you can go out and make noise and if a few good citizens want to raise a campaign chest and go for it, they probably can get it. But when you talk about a sewer system or repaving some bad streets and things like that, that isn't as tangible and as attractive to the general public and yet it is as badly needed or more so than public buildings. I'm not knocking libraries or anything of the kind, but we can get by after a fashion unless the town has expanded so rapidly and so greatly that you have to go out and lease quarters that in the long run it is going to cost you as much as a high priced bond issue.

You refer to revenue bonds in your issue there. Now, municipalities that have light and water systems that are properly managed are revenue producing, but there are times because of our explosive growth that those have to be expanded and I believe that by changing the legislation that those would become as attractive or more so than the general obligation bond. One of the problems there is in the Banking Code wherein banks are not

allowed to bid on revenue bonds except under certain specified cases, but yet they are good. I know the City that I represent just sold \$1,500,000 worth of bonds for badly need expansion. Our City has tripled in its geographical area in the past three years.

People have been building and have needed the facilities and we've had to raise money in some fashion. We got an excellent bid on our bonds. There were several bidders and we have a specific instance in our own State, our own good State Treasurer has been out beating the drum all over the United States telling what you have to offer, what our credit is, what our backing, what the guarantee is of our bonds and any municipality that's properly managed and administered, has a good fiscal policy, employs competent legal advice so that all legal objections are removed from the issue, you'll get a good buy on your bonds. The investor isn't, although of course he is naturally interested in the legality of the bonds, but he also wants to know is he going to get his money back and if he is properly sold; I don't mean that in the adverse sense, he will give you an excellent bid.

Now, lease-purchase - as a finance officer I can figure interest and costs and I'm against them. I think that they should be covered in some manner either to allow those to be tax exempt, allow those to be taken off the tax roll because if you build on someone else's property that remains on the tax roll for the life of the agreement so that your real estate tax is added -

plus the cost of the man's federal income tax. So a liberalized issue or a liberalized manner in which we might secure a general obligation issue would eliminate that bad feature. Then talking about the revenues with which we retire bonds. In my City last year only 27 percent of our revenue came from the ad valorem tax and of that, 10 percent represented the amount paid by the public utility roll. So you're talking about the big absentee owners versus the home owner that's paying the bill, they are no more than paying their own share because if the people weren't there the utility wouldn't be interested in being there either.

I think that some schedule of changing your ratios of voting for certain prescribed essentials and I leave it to your good judgement to determine what would be an essential thing having to do with the health and welfare of the community might be considered in changing the schedule rather than a flat 60 or 66 2/3. I believe that there could be some equitable formula worked out and I respectfully request that be given consideration by this group.

CHAIRMAN MASTERSON: Thank you, Mr. Vaughan. Are there any questions by members of the Committee?

MR. VAUGHAN: Thank you gentlemen.

CHAIRMAN MASTERSON: Thank you, Mr. Vaughan.

Is there anyone else that wishes to speak before the Committee?
Mr. Landels here as yet?

I might state that I think that the testimony given at this meeting today was very productive of ideas and information. Perhaps more so than either of the other two meetings that we have previously held. Which is often the case that as you begin to get into a subject matter you begin to find a lot more out about it and to the surprise of the Committee members as well as the witnesses the discussion gets more interesting as we go along.

Any remarks by members of the Committee before we close today's meeting?

ASSEMBLYMAN BRITSCHGI: The only thing that I could say if I might, Mr. Chairman, would be the fact that the thing that bothers me on a lot of this particular information we do get and several sides of the fence as Mr. Vaughan has stated that maybe the necessities, if you want to to into sewer and water and fire bonds and things like that, it's awfully hard to draw the line and at the same time while you might agree that that's the proper thing to do then you have everybody else becoming a parasite and they'll say well, if it's good enough for the fire and the water, why it's good enough for schools, libraries and other things. That's what we ran into. I know that both the "Judge" and I think that Assemblyman House, I don't think Herb is on our Education Committee and we have that throughout our Education Committee. We find we're doing one thing for one school district and pretty soon another school district in Timbuktu comes along and says well, it's good enough for Los Angeles well, we want to

get in on the gravy train and let's do it for us. So it is rather hard and we have to sit here and try to make up a decision as to what is the best for everybody in California and that's the big problem, I would say, "Judge", on this thing.

CHAIRMAN MASTERSON: Thank you, Mr. Britschgi.

Mr. House?

ASSEMBLYMAN HOUSE: Mr. Chairman, I agree with you that this has been our best and most interesting and most productive meeting of this Committee to date and I think probably one of the reasons is that we seem to have expanded it more to the subject matter than maybe this specific language that is now in ACA 46. That's been the big development and it's been most interesting.

CHAIRMAN MASTERSON: Yes, I think perhaps it should be stated that previously witnesses tended to confine themselves to the exact language that was in the Constitutional Amendment as presented rather than giving the views of their organizations and themselves as individuals, upon the subject matter which, of course, is what we are really interested in because if the language of ACA 46 had been good enough in the beginning, we'd have passed it in '57 or if it had been so bad that nobody wanted it, we would have killed it completely then. But it was the thought of the Legislature that this was a subject that needed exploration and a report.

Mr. Vaughan, you have another comment to make?

MR. VAUGHAN: Yes, just one question, sir. In this you refer to a forty-year limitation for the length of bonds.

CHAIRMAN MASTERSON: Yes?

MR. VAUGHAN: That was one point that slipped my mind.

CHAIRMAN MASTERSON: If you would like to come up and expand your statement and would you give your name again for the record because this is transcribed and it makes it easier for the transcriber -

MR. VAUGHAN: Walter Vaughan, Finance Director of the City of Santa Rosa.

In regard to the length or duration of a bond issue shown as forty years here, a city I believe, is a little bit out of line in issuing a forty-year bond issue because the calculations on the interest even if you have a l percent bond, which is fantastic of course, in forty years will have mounted up to pretty nearly your principal amount and I believe that some limitation on the length of bonds - I'm speaking against perhaps what my own City might want to do sometime - but I still believe that a statutory limit of the lengh of general obligation bonds would be something that would be well worth considering.

CHAIRMAN MASTERSON: Were you here when Mr. Teeter testified this morning?

MR. VAUGHAN: Yes.

CHAIRMAN MASTERSON: And I believe that he thought that we should perhaps set this up to put a limit depending upon the type of improvement that it was to be used for. In other words, if it were a forty-year improvement then it would be proper to amortize it over forty years, but if the useful life was probably twenty-five years, then it wasn't correct to amortize it over a longer period of time.

MR. VAUGHAN: That would be a very excellent pattern which to follow, if you could get them to determine how long the building or the structure or whatever it is would last. Unless you would take the retirement schedule used by the Federal Government on the useful life of a pump or a pipeline or a building of some sort.

CHAIRMAN MASTERSON: That would be difficult.

Are there any other questions? Is there any other witness that has anything further to say? Very well then, the Committee will soon be in adjournment.

I want to announce that the next meeting of the Subcommittee will be held at the San Diego Water Authority Board Room at 2750 Fourth Avenue, San Diego on September 12.

The meeting will now stand adjourned until that time.

## APPENDIX\*

<sup>\*</sup> This letter was to be read into the record, but did not reach the Committee until after the meeting had been held.

THOMAS M. MONTGOMERY COUNTY COUNSEL

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COUNTY COUNSEL

OF HUMBOLDT COUNTY EUREKA, CALIFORNIA

May 21, 1958

Assembly Revenue and Taxation Subcommittee on Public Indebtedness c/o Mary Virginia Galli, Committee Secretary Room 4009
State Capitol
Sacramento, California

Gentlemen:

The Board of Supervisors of Humboldt County has asked me to write to you and express its views concerning Assembly Constitutional Amendment No. 46. It is hoped that this letter may become part of the record of the hearing scheduled for May 23 in Richmond, California.

First, it is felt that Article XI, Section 18, of the Constitution should apply equally to all local governmental agencies. There are now many special districts in California, and these special districts often do not have the permanent staff that cities, counties and school districts have to advise their governing boards. Furthermore, members of the governing boards of special districts usually serve with little or no compensation, and their work is more of a part-time nature than that of the governing boards of cities and counties. For these reasons it appears that special districts are probably more in need of constitutional restrictions against indebtedness than the governmental agencies that are now mentioned in the Constitution.

Second, it is felt that revenue bonds should be treated no differently from general obligation bonds. Generally, the voters are more prone to approve the issuance and sale of revenue bonds than they are general obligation bonds, owing to the fact that no lien is thereby created against their property. There appears, therefore, to be no necessity for making it easier to use revenue bonds than to use general obligation bonds.

Third, it is felt that the present 2/3 vote requirement should remain in effect. The advisability of contracting a long-term indebtedness is in many instances a highly debatable question, and a change in the future economic situation or in school enrollment could make such indebtedness turn out to be unwise. The 2/3 requirement adds a safeguard to prevent rash action.

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Fourth, it is felt that the lease-purchase question poses the most difficult problem in connection with long-term public indebtedness. If a lease-purchase agreement is drafted in accordance with the requirements of the California Supreme Court, the only outright indebtedness that is created is one for reasonable rental value for a specified period, payable as the rentalis earned. There is no obligation to make a purchase, except at the election of the public agency, and even then the purchase must be at the then-existing value of the property. It is our feeling that there should be some limitation, however, on the aggregate amount of lease-purchase contracts which may be outstanding, and that such contracts should not be used to circumvent bonding limitations. As far as counties are concerned, this point is covered by Section 25371 of the Government Code, which provides that 60% of the total payments which would become due under such leases, plus the total amount of outstanding bonded indebtedness, shall not exceed the maximum bonded indebtedness of the County.

In reviewing my material on this matter, I find that I do not have a copy of the exact language of A.C.A. No. 46. I would appreciate receiving a copy so that the exact wording may be reviewed.

Very truly yours,

/S/ Thomas M. Montgomery

Thomas M. Montgomery County Counsel

cc: Board of Supervisors

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